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Alberta ECONOMIC OUTLOOK

SEPTEMBER 1973

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ALBERTA – NATIONAL AFFAIRS

Canadian economic growth during the second quarter of 1973 decelerated. Real GNP advanced at a seasonally adjusted annual rate of nearly 4 per cent in the second quarter, compared to a 11 per cent increase in the first quarter of this year. The slowdown was highlighted by declines in housing and consumer expenditures, due primarily to higher consumer prices which have risen at an annual rate of almost 9 per cent since January; lower Canadian exports resulting from a slowdown in the U.S. economy; and the continued efforts of the Bank of Canada to curtail the demand for credit and stabilize the economy. On September 12, 1973 the Bank of Canada raised the bank rate by one-half percentage point to 7¼ per cent, the fifth increase since April. Most experts still contend however, that the money supply is expanding rapidly enough to prevent a major recession similar to that which occurred in 1969–70.

Economists generally feel that a major recession can be avoided even though there has been a definite deceleration in housing, consumer and government spending. Sufficient momentum is expected to be generated by business expenditures, especially capital investment in plant and equipment, which is already up by an average annual rate of 28 per cent between January and March and expected to grow by at least an annual rate of 15 per cent in both 1973 and 1974. Thus, the Canadian economy is expected to grow rapidly in 1974, although at a slower rate than in 1973, with little change in the unemployment rate and perhaps some moderation in price increases.

INFLATION:

The current inflation in Canada is part of a world wide phenomenon which originated from the expansion of the world's money supply through persistent deficits in the U.S. balance of payments since the late 1960's, coupled with the unprecedented growth in demand for commodities which attended the simultaneous economic expansion of most major western economies during the past year. Food price increases were further stimulated by unexpected natural disasters, beginning with the failure of the U.S.S.R.'s grain harvest in 1972.

There are a number of reasons for believing that the rate of inflation will moderate during the last quarter of this year. Although the rate of inflation in Canada rose to an annual average rate of 8¾ per cent during August, it reflected the spectacular but speculative increases in world commodity prices of the previous month. However average world commodity prices fell 7 per cent in August (world commodity food prices declined 16 per cent) as speculators withdrew from commodity markets to take advantage of upward spiralling world interest rates.

Even though demand can be expected to abate, prices may not fall drastically. The last time commodity prices reached recent peaks was during the Korean War, since when commodity prices have been severely depressed. We could therefore be witnessing a long-delayed recovery of commodity prices rather than a temporary boom. In addition, food and raw material supplies are not expected to increase substantially, except for grains. The record harvests expected in North America and the U.S.S.R., coupled with average crops expected in Argentina, Australia, Western Europe and India, should ease the grain situation. However, the drought in East Africa and the low carryover stocks in major grain producing countries may delay the easing of prices in the short term.

For other commodities, supply expansion is not so readily achieved. Despite high livestock prices, long-run expansion of capacity in the meat industry is being delayed by high feed grain prices. As well, delays are introduced through the time required to expand breeding stocks and the withdrawal from slaughter of potential breeding animals. Therefore, it is unlikely that meat prices will decline to pre-1973 levels during 1974.

Prices of natural fibres will also not come down until expanded capacity in the petrochemical industry increases supplies of the building blocks for artificial fibres, both of which are presently in short supply.

Finally the strong recovery of the U.S. balance of payments during 1973, should lead to a surplus by the end of this year, causing a strengthening of the U.S. dollar which should help stabilize the international monetary situation and have a moderating influence on speculation.

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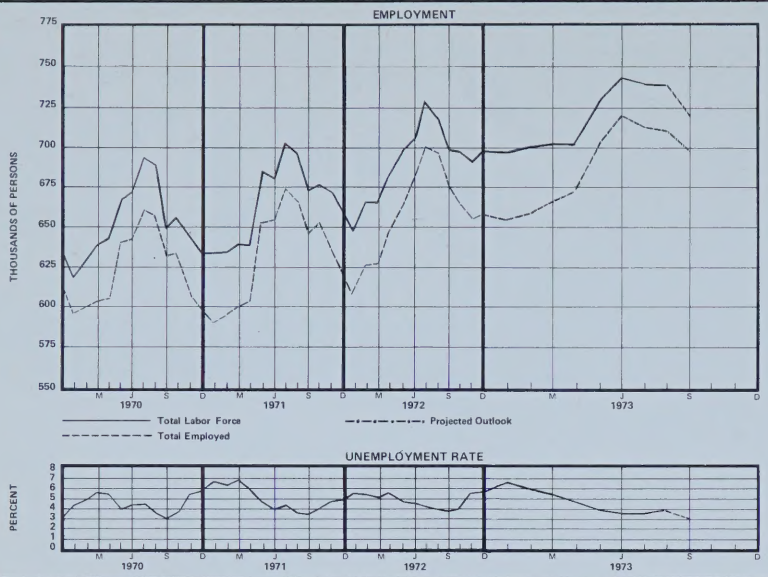
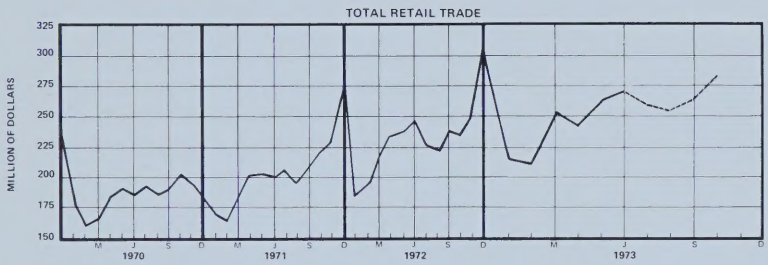


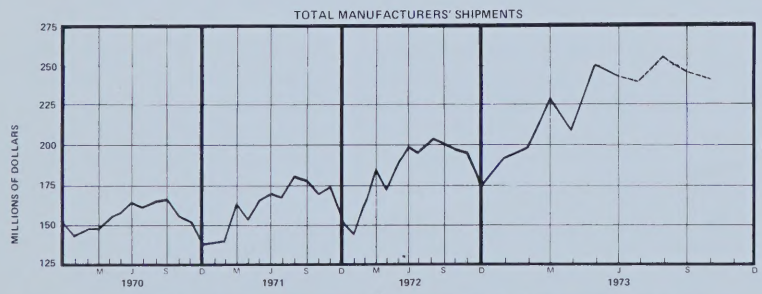
EMPLOYMENT

August's unemployment rate increased to 3.9 per cent due to a decline of 3,000 in total employed and no change in the labour force at 740,000. Prospects for September indicate a decline in the labour force and employed to 720,000 and 698,000, respectively, resulting in 22,000 unemployed. Further seasonal declines are anticipated in the labour force and total employed in October, For the year, Alberta's labour force should average 719,000, total employed 689,000 and unemployed 30,000.



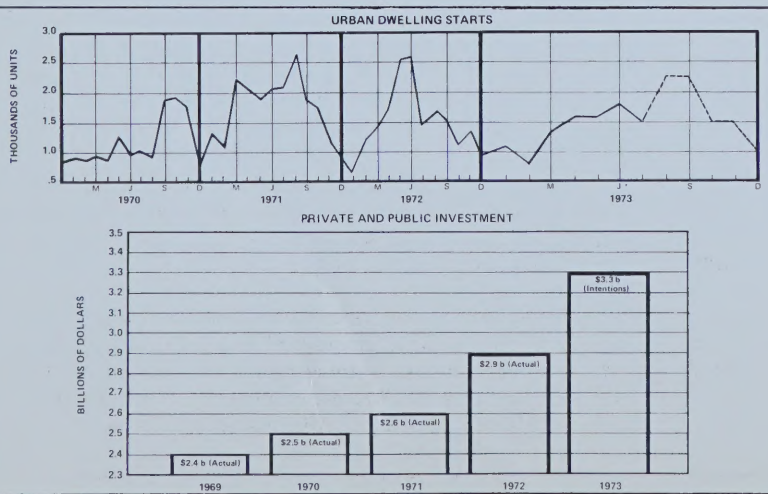
RETAIL TRADE

June's preliminary total of $271 million was 12 per cent above the same month in 1972. To the end of June, retail trade totalled over $1,453 million, 12 per cent above the first half of 1972. Previously published estimates for July, August and September of $258 million, $244 million and $264 million, still appear valid, with October's total expected to reach nearly $283 million. Prospects for November and December indicate substantial gains over previous months as the Christmas buying season draws near.



MANUFACTURERS' SHIPMENTS

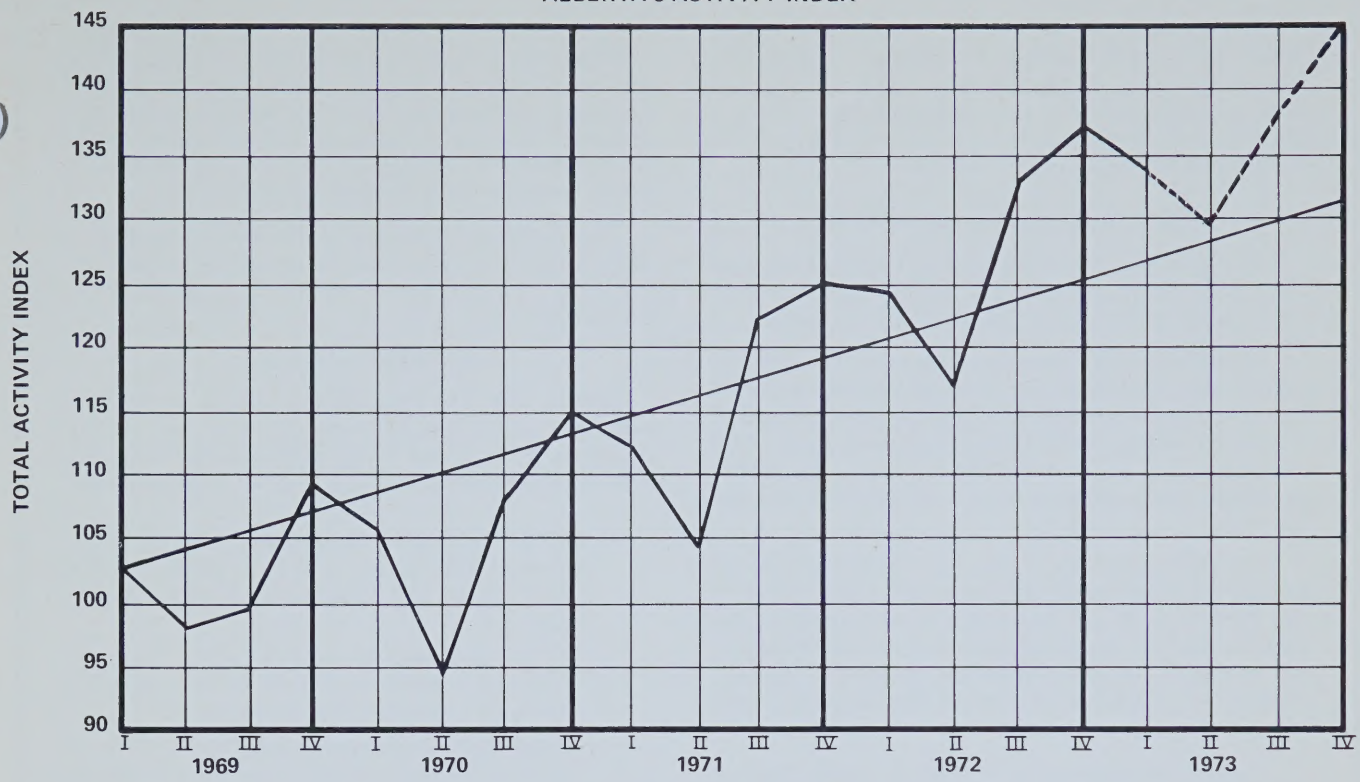
Total shipments to the end of June, 1973, totalled nearly $1,330 million, a 21 per cent increase over the same period last year. June's total reached $244 million, a 13 per cent increase over June, 1972. October's total should approach $242 million, following previously published forecasts for July, August, and September of $240 million, $256 million and $247 million, respectively. Usual seasonal declines will be experienced in November and December.



HOUSING

Total dwelling starts in July, 1973, totalled 1,502, an increase of 1 per cent over July, 1972. However, the January to July total of 9,741 starts was 16 per cent below the same period in 1972. Previously published forecasts for the third and fourth quarters of 4,700 and 4,000, respectively, for 1973, still appear high. Reflecting the overall decrease expected in housing starts in Alberta is a 10 per cent decrease in capital and repair expenditure intentions for housing in 1973, as reported by Statistics Canada and The Department of Industry, Trade and Commerce. A decrease of nearly $54 million will result in a 1973 total of close to $489 million in Alberta, compared with 1972's preliminary actual total of $543 million.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	 Total Year 1972 - 1971	 Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- .1 (Jan. – July)
Slaughtered Meat Exported	+12.6	+ 5.3	+ .6 (Jan. – July)
Refinery Production	+10.7	+21.4	+10.0 (Jan. – July)
Cement Production	+ 4.5	+ 3.5	+10.8 (Jan. – July)
MINING			
Oil Production	+ 9.4	+20.8	+25.6 (Jan. – June)
Gas Production	+10.1	+16.8	+ 9.6 (Jan. – June)
Footage Drilled	+ 1.8	+21.9	+28.9 (Jan. – June)
Number of Wells Drilled	+ 9.6	+13.1	+38.7 (Jan. – June)
Coal Production	+31.7	+14.1	- 2.8 (Jan. – June)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 16.2 (Jan. – July)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	+ 5.0 (Jan. – July)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+40.1 (Jan. – July)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 11.0 (Jan. – July)
Livestock Marketed	+15.1	- 1.6	- 4.8 (Jan. – July)
Farm Cash Receipts	+ 9.8	+14.0	+18.7 (Jan. – July)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+30.5 (Jan. – July)
Lumber Sales	+34.7	+ 5.7	+23.7 (Jan. – July)
Lumber Exports	+26.5	+24.7	+26.4 (Jan. – July)
Pulpwood Production	- 34.9	+47.8	+30.8 (Jan. – July)

UNEMPLOYMENT RATE (Unadjusted)	AUGUST 1973	JULY 1973	AUGUST 1972	JULY 1972
Canada	4.5	4.8	5.4	5.8
Alberta	3.9	3.5	3.5	3.0
CONSUMER PRICE INDEX (1961 = 100)				
Calgary–Edmonton	143.5	141.8	133.6	133

In conclusion, short-term relief from inflation may be found in the reduced demand for commodities as growth rates in the major world economies decrease. Long-term relief will only come from expanded supply which, while it varies from commodity to commodity, will generally not occur before the middle of 1974 at least.

ALBERTA – PROVINCIAL AFFAIRS

On September 18, 1973, Premier Lougheed outlined Syncrude Canada Limited's plans for development of a $1 billion oil extraction plant in the Athabasca Tar Sands.

Development and operation of the plant is expected to employ nearly 1,600 persons directly. However, two conditions still to be met include a favourable tax ruling from and no interference on the pricing of synthetic crude oil by the federal government. A positive reaction by the federal government on these conditions is expected in the next few months.

Participation in the project by Albertans will be through royalty payments by Syncrude Canada Limited in the form of a 50 per cent share in the profits of the operation by the Alberta Government. As well, Albertans will be able to exercise an option to acquire a 20 per cent interest in Syncrude Canada Limited after the plant is fully operational and all construction costs are known.

Further participation by Albertans in energy resource development in the province will be to acquire a 50 per cent interest in the newly incorporated Alberta Energy Company. The AEC will have assets consisting of an 80 per cent interest in a synthetic crude pipeline from Fort McMurray to Edmonton, a 50 per cent interest in the power plant near the plant site, the Suffield block of natural gas and the ownership option in the Syncrude plant.

In addition to the overall investment and employment effects of development of the plant, growth in the Alberta economy in 1974 in excess of 10 per cent is expected. In particular, growth in the manufacturing and construction sectors will be in excess of the previously projected 5 per cent and 12 per cent figures respectively forecast.

ALBERTA INTERNATIONAL AFFAIRS

At the General Agreement on Tariffs and Trade meeting held in Tokyo on September 12, the major economic powers reached agreement on a broad programme for the restructuring of the world's trading system. Trade and international monetary negotiations will be undertaken simultaneously. This is a compromise between the French position that monetary problems are the crucial issue and American insistance that trade talks should be initiated first.

Canada's Minister of Industry, Trade and Commerce requested freer trade in agricultural products and a sectoral approach to reduce tariffs discriminating against Canada's exports of upgraded raw materials. He is also seeking a substantial reduction in industrial and agricultural tariffs, the elimination of non-tariff barriers, and improved export earning opportunities for less developed countries.

The European Economic Community's intention to retain its common agricultural policy and the Canada/U.S. position on free agricultural trade can be expected to lead to dissension.

BUSINESS OUTLOOK

Results from The Financial Post's latest business outlook survey predict a slight deceleration in business activity in Canada, little change in the unemployment rate, and some price moderation by the end of 1973. In particular:

- 84 per cent of the respondents reported an increase in sales during the first six months of 1973, while 82 per cent expected a further increase to year-end;
- 81 per cent reported price increases during the first half of the year, with 76 per cent expecting further price increases during the last half;
- Employment increases were experienced by 40 per cent of the respondents during the first half of 1973, but only 34 per cent expect further increases during the July – December period;
- During the first half of the year, almost 72 per cent of the firms contacted reported after-tax profits above the year earlier level, but slightly less predicted year-to-year gains during the second half;
- In the first six months, 87 per cent of exporting companies contacted anticipated gains in yearly export sales but only 77 per cent presently feel export sales will be increased by year-end;
- Capital spending seems to be increasing however, since 49 per cent of the respondents had increased capital expenditures during the first six months and 54 per cent expect further increases towards year-end.

Although a generally optimistic outlook is provided by the survey, there are some uncertainties endangering future investment and economic expansion in Canada. These would include the results of the forthcoming multilateral General Agreement on Tariffs and Trade talks, fears of more protectionist moves in the United States, and the persistent world monetary crises.

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Printed by the QUEEN'S PRINTER for the Province of Alberta, Edmonton

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